

Finance and Administration Cabinet STANDARD PROCEDURE		ISSUED BY: Department of Revenue; Tax Administration
PROCEDURE # 6.11.3	SUBJECT: Audit Billing and Refund Thresholds	
EFFECTIVE DATE: 6/24/2010		
CONTACT: Commissioner's Office		LOCATION: State Office Bldg, 11th Floor PHONE: 502-564-3226

STATEMENT OF AUTHORITY

1. The Finance and Administration Cabinet's Standard Procedures Manual establishes standard mandatory internal procedures cabinet-wide. These procedures are established in accordance with the Secretary's statutory authority under KRS 42.014 and KRS 12.270 to establish the internal organization and functions of the Cabinet as necessary to perform the duties effectively.
2. The Standard Procedures Manual may only be revised in accordance with the process outlined in Standard Procedure #1.1 entitled: "Finance Standard Procedures and Manual".

I. POLICY

In order to expedite the audit process and maximize the efficient use of time, money, and other resources, the Department of Revenue shall not bill or refund adjustments of less than \$25.00 per audit period or a total audit of less than \$100.00, unless specifically requested by the taxpayer.

II. PROCEDURE

The following procedures shall be used when billing or refunding audits.

- A. Audit amounts billed or refunded to taxpayers shall be determined using the following thresholds:
 1. Any calendar year or 12 month billing or refund period (post audit), which does not generate a minimum of \$25.00 in tax or refund, will be treated as a "no change" period.
 2. Normal audits encompass at least four (4) billing periods with a \$100.00 total audit threshold. Any audit with less than four (4) billing periods is considered post audit. A \$25.00 total audit threshold applies to each period instead of the normal \$100.00 for post audits.
 3. If a total audit is in excess of \$100.00, but exclusion of certain periods reduces the total audit to less than the \$100.00 tolerance level, the total audit will stand. The minimum billing thresholds shall not apply to non-registered or non-filer accounts, which did not file during the audit periods.

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4. Audits for corporation income and limited liability entity tax shall be treated as two (2) separate audits when applying the billing and refund thresholds, one for income tax and one for limited liability entity tax. When billing for limited liability entity tax, use a total audit threshold of \$175.00 for bills or refunds instead of \$100.00.
 5. Audits, with the exception of limited liability tax audits described in A.4, which do not generate a total of \$100.00 or more in tax or refunds, shall be treated as “no change” audits.
- B. Apply the referenced thresholds when an audit period encompasses two (2) consecutive short periods that constitutes 12 months or a calendar/fiscal year.
 - C. Short periods at the beginning and end of an audit period that are independent of each other shall be treated as two (2) separate audit periods.
 - D. All audit adjustments and results shall be explained to the taxpayer through the presentation of work paper copies. These work papers represent proposed adjustments to a period or a group of periods. The papers are normally explained to the taxpayer as part of the closing conference at the end of the audit.
 - E. Prepare a Report of Audit ([Form SP7.611031](#)) for audit period underpayments or overpayments that do not meet the billing/refund threshold even though deleted from the audit. Enter a zero (0) on the “Additional Tax Liability” line if amounts are under the prescribed thresholds.

III. FORMS

[Form SP7.611031](#): Report of Audit